

Message Text

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ACTION EUR-25

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FM AMEMBASSY MOSCOW

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C O N F I D E N T I A L MOSCOW 4878

E.O. 11652: GDS

TAGS: EGEN ETRD UR

SUBJECT: AMBASSADOR'S CALLS: N.N. SMEL'YAKOV AND
N. S. KOMAROV

REF: A) STATE 61123; B) MOSCOW 3717

1. SUMMARY: IN COURSE OF INTRODUCTORY PROTOCOL CALLS ON DEPUTY FOREIGN TRADE MINISTERS NIKOLAY D. KOMAROV AND NIKOLAY N. SMEL'YAKOV BOTH OFFICIALS COMMENTED FRANKLY ON PROBLEMS THEY ENCOUNTER IN CONCLUDING TRANSACTIONS WITH AMERICAN FIRMS. ATMOSPHERE IN BOTH INSTANCES WAS WARM AND RELAXED, BUT NEITHER DEPUTY MINISTER HESITATED TO SPELL OUT IMPEDIMENTS TO COMPLETION OF DEALS AS SEEN FROM AVOWEDLY SOVIET VIEWPOINT. KOMAROV CONFIRMED ALSO THAT CHIEF OF MFT MAIN ADMINISTRATION FOR IMPORT OF MACHINERY AND EQUIPMENT FROM CAPITALIST COUNTRIES, VLADIMIR N. SUSHKOV, IS "IN CHARGE" OF ALL PROPOSED US-SOVIET PROJECTS WHICH INVOLVE REPAYMENT IN PLANT OFFTAKE (COMPENSATORY OR "KOMPENSATIONNIY" PROJECTS).

2. AFTER COMMEING THAT HIS PRINCIPAL RESPONSIBILITY IS EXPORT OF SOVIET INDUSTRIAL MACHINERY AND OTHER MANUFACTURED GOODS, SMEL'YAKOV OUTLINED SOVIET HOPES FOR EXPORTS TO THE U.S., CITING TRACTORS, GENERATING EQUIPMENT, AIRCRAFT, LIGHT- AND MEDIUM-WEIGHT EXCAVATORS AS WELL AS OTHER TYPES OF
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CONSTRUCTION EQUIPMENT, LATHES FOR METALURGICAL APPLICA-

TIONS AND OPTICAL GOODS (CAMERAS, BINOCULARS, PORTABLE MICROSCOPES). HE NOTED THAT THE SOVIETS HAD SOLD A 65,000 TON PRESS TO FRANCE IN 1973, AND STATING THAT TWO 75,000 TON PRESSES ARE IN OPERATION IN THE SOVIET UNION AND THAT EXPERIENCE TO DATE WITH THESE SUGGETS THAT THEY WILL BE SUITABLE FOR THE US MARKET. SMEL'YAKOV THEN BROUGHT UP EXISTING DIFFERENTIAL TARIFF RATES, COMMENTING THAT THEY PRESENT AN OBSTACLE TO INCREASED SOVIET SALES AT PRESENT.

3. ACCORDING TO SMEL'YAKOV, ON SMALL ITEMS THE IMPORT TAX ADDED TO SOVIET GOODS ENTERING THE US IS NOT ESPECIALLY IMPORTANT, ALTHOUGH VERY LARGE QUANTITIES MUST BE SOLD IN ORDER TO PRODUCE ANY IMPACT ON TRADE BALANCES. WHAT CONCERNS HIM IS THAT SOVIETS CANNOT COMPETE EFFECTIVELY WITH OTHER FOREIGN MANUFACTURERS IN SALES OF INDUSTRIAL GOODS UNTIL MFN IS GRANTED. SMEL'YAKOV ALSO EXPRESSED CONCERN ABOUT THE RECENT ROCK ISLAND HYDROPOWER PROJECT DECISION, SAYING THAT THE SOVIETS COULD HAVE UNDERSTOOD AN AMERICAN DECISION TO USE ONLY US-MADE EQUIPMENT, BUT THAT THEY WERE AT A LOSS TO COMPREHEND REJECTION OF THE WESTINGHOUSE-SOVIET BID IN FAVOR OF A HIGHER BID FROM ANOTHER FOREIGN CONCERN. FOLLOWING MY RESPONSE ALONG LINES INDICATED REF A, CONVERSATION TURNED TO DETENTE IN GENERAL.

4. SMEL'YAKOV THEN INDICATED HE WAS AWARE THAT PRESIDENT'S POLICY OF REDUCING TENSIONS BETWEEN US AND USSR WAS NOT YET UNDERSTOOD OR SUPPORTED BY ALL AMERICANS, JUST AS SOVIET MOVES TOWARD SAME GOAL HAD NOT BEEN AND WERE NOT YET SUPPORTED BY ALL ELEMENTS OF SOCIETY HERE. THE DETERMINING ARGUMENT IN BOTH COUNTRIES, HE CONCLUDED, IS AND WILL BE THE REAL ADVANTAGES BOTH SIDES ARE FINDING IN BUILDING CLOSER TIES WITH EACH OTHER.

5. BEGINNING CONVERSATION IN SIMILARLY POSITIVE VEIN, KOMAROV STATE THAT HE HAD TWICE VISITED US AND HAD RECEIVED EQUALLY FAVORABLE IMPRESSIONS FROM BOTH TRIPS. TO MY COMMENT THAT PERSPECTIVE FOR FURTHER INCREASES IN TRADE AND ECONOMIC RELATIONS SEEMED BRIGHT, HE RESPONDED THAT FUTURE OF COURSE DEPENDS ON BOTH SIDES AND THAT REAL POSSIBILITIES EXIST FOR GREAT INCREASE IN TRADE
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BETWEEN TWO SUCH LARGE COUNTRIES WITH COMPLEX AND WELL DEVELOPED INDUSTRIAL BASIS. HE EMPHASIZED THAT WE MUST NOW CREATE THE CONDITIONS WHICH WILL FACILITATE THE EXTENSIVE TIES BOTH COUNTRIES WILL FIND BENEFICIAL.

6. FROM THE PERSPECTIVE OF THE SOVIET PURCHASER, KOMAROV SAID, DELAYS IN ARRANGING EXPORT FINANCING POSE AN AWKWARD PROBLEM. CITING ALLIS-CHALMERS SALE OF

PELLETIZING PLANT TO SOVIETS IN JUNE 1973 AS EXAMPLE, HE POINTED OUT THAT EX-IM BANK LOAN FOR TRANSACTON WAS APPROVED ONLY RECENTLY, AND MENTIONED ALSO THAT ONLY HITCH IN FINAL CONCLUSION OF CONTRACTS FOR OCCIDENTAL FERTIZLIER PLANT DEAL IS CONVERSION OF EARLIER EX-IM PRELIMINARY COMMITMENT INTO FIRM LOAN.

7. ON THE POSITIVE SIDE, ACCORDING TO KOMAROV, THERE IS NO PROBLEM IN AWAKENING INTEREST IN SOVIET PROJECTS ON PART OF POTENTIAL US SUPPLIERS, BUT FINANCING ARRANGEMENTS SIMILAR TO THOSE OFFERED BY OTHER MAJOR WESTERN SUPPLIERS ARE ESSENTIAL IF AMERICAN FIRMS WANT TO COMPETE SUCCESSFULLY ON SOVIET MARKET. COMMENTING ON INCREASING NUMBERS OF EXPERTS VISITING PLANTS IN BOTH COUNTRIES, KOMAROV DESCRIBED THIS EXCHANGE AS ESSENTIAL TO KEEP THE MAJOR PROJECTS MOVING SMOOTHLY. HE STATED THAT 1,100 ITALIANS WERE OCCUPIED AT TOL'YATIGRAD IN CERTAIN PEAK PERIODS WHILE THE AUTOMOBILE PLANT THERE WAS UNDER CONSTRUCTION AND THAT AS MANY AS 600 SOVIET TECHNICIANS WERE SIMULTANEOUSLY LOCATED IN TURIN. PREDICTING SIMILAR LEVELS OF PERSONNEL MOVEMENT IN BOTH DIRECTIONS IF AND WHEN VARIOUS PROPOSED US-SOVIET PROJECTS ARE UNDER WAY, KOMAROV SUGGESTED THAT VISA PROCEDURES WILL HAVE TO BE SIMPLIFIED AND SPEEDED UP IN SUCH CASES OR CONSTRUCTION SCHEDULES WIL BE DELAYED BEYOND ALL REASON.

8. KOMAROV EXPRESSED INTEREST AND SOME AMUSEMENT THAT MANY
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